CALGARY **ECONOMIC OUTLOOK,** 2000–2005

THE CITY OF CALGARY

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EXECUTIVE SUMMARY

Introduction

Corporate Strategy and Economics monitors and forecasts economic activity in the local economy throughout the year. The outlook report is prepared annually, in the fall. The outlook is used as a resource in the preparation of the 2001 departmental budgets and updates to the 1999 to 2001 business plans.

This report provides an analysis of major economic indicators for the years 2000 to 2005.

Economic growth in most sectors of the Calgary economy is forecasted to slow over the forecast period. However, it is important to note that this represents a moderation from recent high levels and does not represent a negative growth or recessionary period. Rather, it is a return to more "normal" levels of growth.

U.S. and Canada

The U.S. economy is expected to grow at 3.2% in 2001, down from 5.2% in 2000, as consumer and business spending slow in response to increased borrowing costs stemming from higher short-term interest rates. Between 2003 and 2005, the economy is expected to trend downwards to its long-term growth potential of 2.5%.

The Canadian economy is expected to grow by 3.0% in 2001 and 2002 and then slow to 2.8% annually between 2003 and 2005, in response to higher short-term interest rates, a stronger dollar and a slower growing U.S. economy.

The prime rate is expected to peak at the current level of 7.5% in 2000, up from 6.4 % in 1999, as the Bank of Canada increases its bank rate to match higher short-term interest rates in the U.S., to defend the value of the Canadian dollar. As the U.S. economy slows and short-term interest rates are reduced in that country, the Canadian prime rate is expected to fall to 7.4% in 2001 and to 6.5% by 2005.

The exchange rate is expected to average U.S.$0.67 in 2000, U.S.$0.70 in 2003 and U.S.$0.72 in 2005.

RECENT DATA SUGGESTS THAT ECONOMIC ACTIVITY IS SLOWING.

Alberta

- Alberta is expected to lead the country in G.D.P. growth over the next two years.
- Oil and natural gas prices are expected to drop, but still remain high enough to support strong economic growth.
- The Alberta economy is expected to grow by 3.9% in 2001, down from 5.3% in 2000 and slow to 3.2% by 2005.
- The unemployment rate is expected to remain around 5%.
- Inflation is expected to trend down from about 3% to 1.7% over the forecast period.

Calgary

- Calgary's businesses that trade with the rest of the world will enjoy an expanding market for their goods and services.
- The Calgary economy is expected to remain the growth centre of the province throughout the forecast period.
- The Calgary economy is expected to grow in excess of 3.0% annually growth between 2001 and 2005.
- Population growth is expected to average 2.2% for the Census Metropolitan Area as a whole and 1.9% for the City.
- Construction activity is expected to slow but remain healthy.

Implications of the Forecast

Government and Public Sector

Over the forecast period, Calgary's government and public sector is expected to benefit from:

- economic expansion,
- increase in residential and non-residential structures,
- positive employment growth,
- increasing labour incomes, and
- relatively low Canadian dollar.

But in this period, the government and public sector must address the following:

- an ageing population,
- higher interest rates,
- uncertain energy commodity prices,
- greater demand for services,
- strong population growth , and
- continued growth outside the built-up areas.

Business Sector

The private sector is expected to benefit from:

- strong population growth,
- relatively low Canadian dollar,
- increasing labour incomes
- strong investment in heavy oil,
- tax cuts, and
- expansion of the world economy.

But in this period, the private sector must confront the following:

- relatively low unemployment rates,
- declining net migration,
- relatively higher interest rates, and
- uncertain resource prices.

The U.S. economy is expected to grow at 3.0% in 2001 and slow to 2.5% annually from 2002 to 2005.

The U.S. economy grew by 5.3% in Q2, 2000, up from 4.8% in Q1, 2000 and 3.5% in Q1, 1999. Strong business spending and rising export volumes to a recovering world economy drives the current expansion.

This expansion is not sustainable over the long-term without generating significant inflation since the economy has operated beyond its full employment potential for a number of years. For example, the unemployment rate has averaged less than 5.0%, considered to be the inflation safe level, from July 1997 to the present. In addition, output expanded by more than 4% annually over the last 3 years; well above the U.S. Federal Reserve's inflation safe level of 3.0%. The U.S. Federal Reserve has been on a constant inflation watch and has demonstrated its willingness to hike short-term interest rates to restrain output and inflation. This raises the question how long will the current pace of expansion continue?

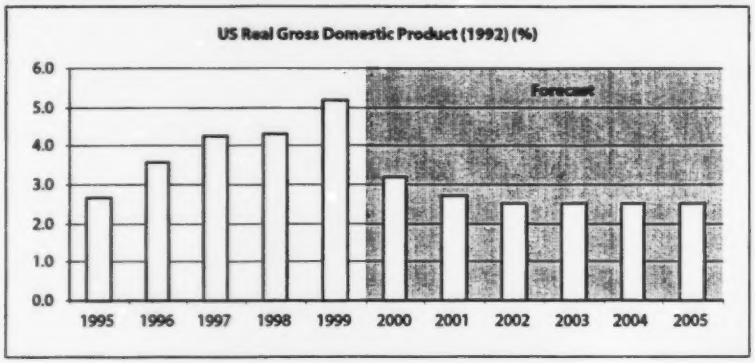
The forecast assumes that the economic expansion in the rest of the world would remain firm over the 2000-2005 period. Consequently, the demand for commodities is expected to continue to expand and absorb the excess supplies of commodities in world markets and place upward pressure on commodity prices.

As economic growth becomes entrenched in the rest of the world, the flow of foreign capital into the U.S. Treasury market is expected to abate and the demand for the U.S. dollar should be reduced. In addition, the growing U.S. current account deficit is expected to exert downward pressure on the dollar. The U.S. dollar should depreciate in value and increase inflationary pressures in the U.S. economy.

Faced with the potential threat of foreign and domestic inflation the Federal Reserve raised its Federal Funds Rate 178 basis points since June 1999. The forecast assumes that, U.S. short-term interest rates are expected to be maintained at current or higher levels in 2000 to curb inflation. High short-term interest rates are expected to increase the cost of borrowing and severely restrict the purchase of big-ticket items such as automobiles, household appliances and houses. This is expected to reduce domestic demand.

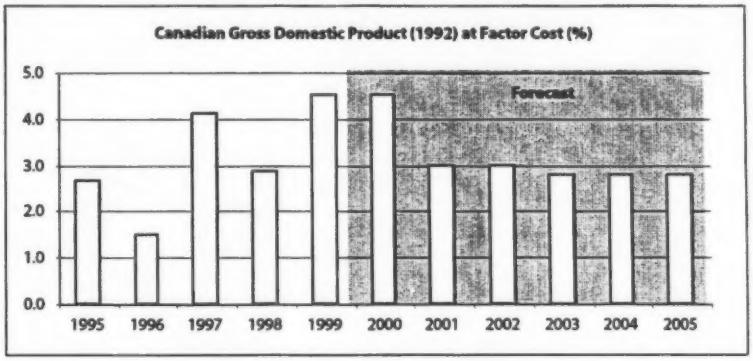
The major effects of a tighter monetary policy is expected be felt in 2001 because of the long lags between changes in monetary policy and the final impact on output. The forecast therefore assumes that the U.S. economic growth would average 5.2% in 2000 as consumer and business spending remains relatively strong

Consequently, economic growth is expected to decelerate to 3.2% in 2001 from 5.2% in 2000. Between 2003 and 2005, the U.S. economy would grow at its long-term potential of 2.5%. The Federal Reserve is expected to lower short-term interest rates, as the economy begins to slow from 2001 and beyond.



The Canadian economy is expected to grow by 3.0% in 2001 and 2002 and then slow to 2.8% annually between 2003 and 2005

The Canadian economy grew by 5.3% in Q2, 2000 up from 5.0% in Q1, 2000 and 4.3% in Q2, 1999. Overall, output in the first six months of 2000 expanded by 5.2% from the same period in 1999. Increases in exports and domestic demand contributed to G.D.P. growth. The economy is showing no signs of slowing. Despite declines in total employment in June and July, the level of job creation has been solid. Employment for the first half of 2000 averaged 14,855,900, an increase of 2.9% from the first half of 1999.



The forecast calls for the Canadian economic growth rate to decelerate to 3.0% in 2001, down from 4.5% in 2000, as the U.S. economy slows. The Canadian growth rate is expected to be higher than the U.S. because of a relatively larger output gap in Canada. From 2003 to 2005, the Canadian economy is expected to slow further to grow at an annual rate of 2.8%. In addition, the Canadian growth trajectory is expected to be similar to that of U.S., as the Canadian and U.S. economies are closely integrated.

The deceleration of economic activity is expected to result from higher oil prices, higher interest rates and slower growth in the U.S. Higher interest rates are expected to increase the cost of borrowing and depress consumer and business spending on interest sensitive items. Also, higher oil prices are expected to reduce disposable incomes and have a negative impact on business

and consumer spending. In addition, slower growth in the U.S. economy should cause the demand for Canadian exports to grow at a correspondingly reduced pace.

These negative impacts are expected to be counterbalanced by increased exports to the rest of the world, excluding the U.S. Continued growth in the rest of world would provide an expanding market for Canadian goods and services. Overall, employment in Canada's export servicing sectors is expected to increase.

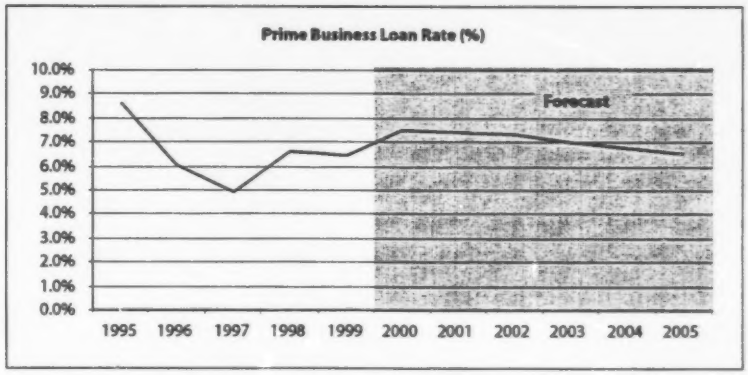
Employment growth is expected to exceed the labour force growth and reduce the unemployment rate. Therefore, employers are expected to increase wages to entice workers to join or to stay in the labour force. Higher wages and increased employment is expected to result in higher labour incomes. Federal and provincial tax cuts are expected to increase disposable incomes. Also, increased spending by various levels of governments is expected to further stimulate the economy and offset the drag created by increased energy costs.

Prime Rate

The prime lending rate averaged 6.4% in 1999, down slightly from 6.6% in 1998. The prime rate increased by 125 basis points between May 1999 and March 2000 as the Bank of Canada raised the Canadian bank rate to partially match increases in U.S. short-term rates. The U.S. interest rate hikes were not fully matched by the Bank of Canada since, the Bank of Canada had to reconcile the conflicting objectives of currency stability and economic growth. Moreover, the two countries differed in terms of economic fundamentals. For example, the Canadian economy still enjoys an output gap and consequently, higher interest rates are expected to increase the size of that gap and cause the unemployment rate to rise and push the inflation rate towards the lower end of the Bank of Canada's 1-3% inflation target range. The output gap is expected to prevail unto 2001. Consequently, an interest rate differential may exist in 2000.

As the U.S. economy slows in 2001 and beyond, the U.S. Federal Reserve is expected to move to lower short-term interest rates. The Bank of Canada is not expected to fully match these moves, because of its' concern about price stability. The Bank of Canada is expected to keep short-term interest rates relatively high over the 2001-2005 period, in order to control inflation. The forecast calls for the prime rate to peak at 7.5% in 2000 and then trend down to 6.5% by 2005, up from 5.7% in 1997.

THE BANK OF CANADA IS EXPECTED TO KEEP SHORT-TERM INTEREST RATES HIGH, TO CONTROL INFLATION.

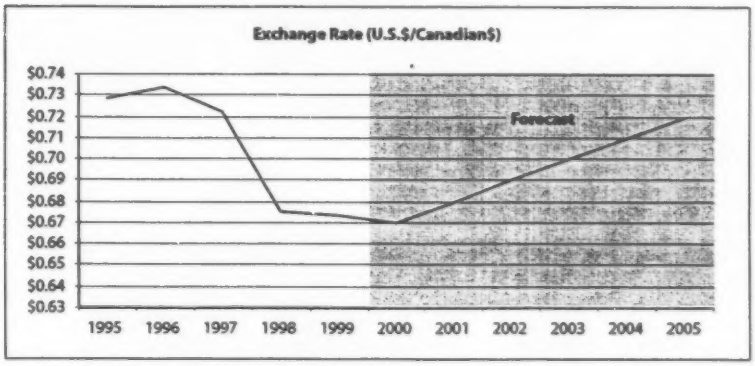


Exchange Rate

The Canada/U.S. exchange rate was estimated at U.S.$0.67 in 1999, same as 1998, but down from U.S.$0.72 in 1997. The dollar averaged U.S.$0.74 in January 1997 and fell to U.S.$0.65 in October 1998. The firming of growth in the world economy and the subsequent strengthening of commodity prices halted the downward skid in the Canadian dollar.

The dollar is expected to average U.S. $0.67 in 2000, same as 1999 and 1998. The existence of the U.S./Canada interest rate differential in 2000 is expected to cause the exchange rate to remain at its 1999 level.

The exchange rate is expected to drift upwards to U.S. $0.72 by 2005, as the Bank of Canada tightens monetary policy to control inflation. Relatively higher interest rates are expected to hinder capital exports and encourage capital imports and therefore exert upward pressure on the exchange rate.



Alberta is expected to lead the country in G.D.P. growth over the next two years.

Energy Prices

Oil and natural gas prices are currently at very high levels. While prices are expected to fall over the forecast period, they are still expected to remain at levels high enough to support strong investment activity.

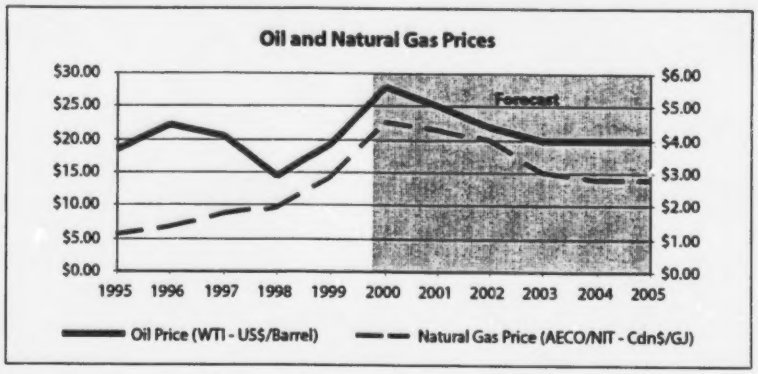
After bottoming out in 1999, world oil prices have rebounded to ten-year highs in 2000. Despite several announced output increases by OPEC, oil prices have remained strong. World demand has grown significantly as the North American economies have experienced sustained high growth and the rest of the world, primarily in Asia, have rebounded from the doldrums experienced in 1997 and 1998.

There is considerable speculation that with the exception of Saudi Arabia and possibly Kuwait, OPEC countries are currently producing at capacity and are expected to require some time to be able to increase production significantly. As well, inventories are relatively low with the uncertainty of winter approaching. Prices are expected to remain strong over the winter, but are expected to begin easing by spring of 2001. Oil prices are expected to drift down throughout the forecast period and reach the $20 to $22 range by 2002

Natural gas prices have reached their highest sustained levels since deregulation of the industry in 1986. Significant increases in export pipeline capacity have linked Alberta prices to the U.S. markets over the past three years. High demand growth, driven by residential and electricity generation demand, has outpaced supply growth in North America, which has pushed prices up to the current levels.

Over the forecast period, natural gas prices are expected to drift downwards. Higher prices are expected to stimulate new exploration and development drilling in Canada and the U.S. New sources in more remote locations are expected to be considered. As well, sustained high prices are expected to limit demand growth as marginal demand is shifted to competing technologies. Excess pipeline capacity, however, is expected to keep Alberta prices linked to

the North American market. Therefore, prices in Alberta are still expected to remain above the levels experienced through most of the 1990's.



G.D.P.[1]

The 1998 provincial economic accounts are the most current information available on Alberta's gross domestic product. However, other economic indicators for 2000 show, the province is experiencing balanced growth.

In the first six months of 2000 compared to the same period 1999:

- retail sales grew by 9.8%;
- total employment in Alberta was estimated at 1,584,000 up from 1,545,800; on a year over year basis, employment increased by 2.5%;
- building permit values totalled $2,758.8 million in 2000, for the first six months, up from $2,278.5 million for the same period 1999; and
- during this period, municipalities in the Calgary CMA. issued building permits valued at $1,269.4 million, up from $980.6 million in 1999.

For the first 5 months of 2000:

- manufacturing shipments grew by 19.5%;
- the fastest growing sectors were petroleum/coal products (85.2%) and primary metal (42.4%);
- exports increased by 56.8%.;
- machinery and equipment (83.1%) and energy products (80.2%) were the fastest growing sectors;
- energy products accounted for 58.9% of all exports; and

[1] The Alberta forecasts presented in this report are based on a consensus of various forecasts. As a result, they will differ from other forecasts. These differences arise largely based on the underlying assumptions regarding energy prices and the growth of the U.S. and Canadian economies (see Forecast Risks and Comparisons section). As economic activity in Calgary depends on activity in the province, the assumption of growth in Alberta will impact the forecast for the Calgary economy.

- the U.S. bought 87.1% of Alberta's exports.

In the first quarter of 2000,

- wages and salaries totalled $13,367 million.

The Alberta economy is expected to grow by 5.3% in 2000, up from 2.7% in 1999 and 1.8% in 1998. Strong energy prices are expected to contribute to increased cash flow for the energy sector and the provincial government and allow for increased public and private sector spending. The provincial government is expected to be in a better financial position to offer larger tax cuts. Also, the currently booming U.S. economy is expected to create an expanding market for Alberta's exports. The combination of increased business investment, higher government spending and growing export volumes are expected to add stimulus to the provincial economy by expanding output, employment and the wage bill. An improving labour market would act as a draw to job seekers from other provinces. The expanded population base along with higher disposable incomes would create a healthy market for consumer products.

The economy is expected to grow by 3.9% in 2001, down from 5.3% in 2000. The provincial economy is expected to slow in response to more moderate growth in the U.S. and in the rest of Canada. Slower growth in the North American markets along with an appreciating exchange rate is expected to result in the foreign demand for Alberta's products expanding at a similar rate. The growth in demand for labour and non-labour resources in the province's export based sectors would therefore moderate.

The depressing effects of slower North American growth and a stronger Canadian dollar would be counter-balanced by increased government spending, reduced personal taxes, higher business investment, strong growth in the rest of the world outside North America and strong consumer spending:

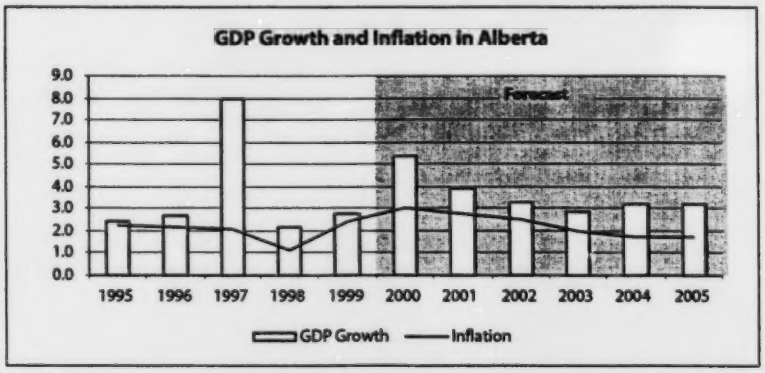
1. Government spending and taxes. *The provincial and federal governments have enjoyed budget surpluses for several years. Consequently, they are in the position to fund deficits in social programs and this may mitigate the impact of a slower growing U.S. economy. Also, both levels of government have tabled plans to reduce taxes. In the case of Alberta, a flat tax rate of 10.5% is expected to commence on January 1, 2001. This is expected to increase disposable income and stimulate consumer spending. Other fiscal measures set to take effect over the forecast period include the provincial education property tax cut and significant reductions in business taxes. The province has also announced two energy price related rebates for residential consumers.*

2. Increased business investment. *Alberta Economic Development estimates the total value of major projects in Alberta, valued at $2 million or greater, that have recently been completed, underway, or are proposed to start within two years, at $64 billion, as of September 2000. Relatively high oil prices should increase the likelihood that a significant number of these projects may proceed. The forecast assumes that prices are expected to drop throughout the forecast period but remain high enough to support strong investment spending in the conventional and non-conventional energy sectors. In addition, businesses are expected to invest more on labour, and machinery and equipment in order to remain competitive or increase market share in the global economy.*

3. Growing world economy. *The forecast assumes that the world economy would expand throughout the 2000-2005 period. Consequently, the province should enjoy both a growing demand and stable prices for its commodity exports.*

4. Consumer spending. *Employment is expected to grow above 2.0% annually for the entire forecast period. Alberta would continue to experience relatively low unemployment rates and would attract job seekers from the rest of Canada. In addition, employers are expected to increase wages to attract workers to a relatively tight labour market. Increased employment, higher wage rates and lower personal taxes are expected to combine to more than offset higher energy costs and to increase disposable income. This is expected to result in increased consumer spending.*

The provincial economy is expected to grow at a slower rate from 2002 to 2005, as the other North American economies converge to their long-term growth paths. The provincial economic growth rate is expected to average 3.2% in 2005, down from 3.9% in 2001. Even though the provincial growth rate is expected to trend downwards, it is expected to be higher than the Canadian average. The provincial economy would benefit from a higher rate of investment, a younger labour force, a faster growing population, and higher productivity growth. These are expected to allow the Alberta economy to expand at a faster rate than other provincial economies.



Labour Market

Alberta's employed labour force is expected to grow at 2.9% in 2000 and 2001, up from 2.5% in 1999. As economic activity slows between 2002 and 2005, employment is expected to grow correspondingly. Employment growth is expected to average 2.0% in 2004 and 2005.

The provincial unemployment rate averaged 5.0% for the first six months of 2000, down from 5.9% for the same period 1999. It is forecasted to average 5.0% for 2000 and fluctuate around that level for the rest of the forecast period. From 2001 to 2005, employment growth is expected to match labour force growth, thus holding the unemployment rate relatively constant.

Inflation

Strong migration, rising incomes and falling taxes are expected to increase aggregate demand, putting inflationary pressure on prices. Also, high energy prices should translate into higher transportation and heating costs. The combination of strong consumer demand and higher transportation and heating costs is expected to reflect in higher prices for consumer goods. Consequently, the consumer price index should increase by 3.0% in 2000 and 2.8% in 2001, as economic growth moderates.

Softer energy prices, slower demand growth in the rest of Canada and the U.S. and productivity increases resulting from significant investment growth are expected to blunt the inflationary pressures. Also, slower employment growth is expected to further relieve wage pressures. Inflation is expected to trend downwards from 2.5% in 2002 to 1.7% in 2005.

Census Metropolitan Area (CMA)[2]

Calgary's businesses that trade with the rest of the world will enjoy an expanding market for their goods and services.

GDP

After 2 years of moderate growth, the Calgary economy is set to once again push forward at about 5.8% in 2000, a rate comparable with the exceptional growth in 1997. After depressed oil prices slowed the Calgary economy in late 1998 and early 1999, the rebound in oil prices over the last 18 months, along with increasing natural gas prices are pushing the Calgary economy back to the forefront of Canadian metropolitan centres. The high oil and natural gas prices have stimulated investment and employment in the energy industry. Record drilling activity is also occurring. This surge in activity has stimulated services sectors such as business services, manufacturing, transportation and wholesaling. Strong positive net migration, high employment growth and increasing incomes have boosted the retail trade and construction sectors.

Economic growth in the CMA should decelerate to slightly over 3% between 2001 and 2005, down from 5.8% in 2000.

An expanding world economy, increased business spending and firm consumer demand should power the CMA's expansion. A growing world economy is expected to lead to firmer product prices and an expanded market for the CMA's goods and services. Relatively high energy prices should add to the industry's cash flow and boost drilling, investment spending and employment. Investment spending in other sectors should remain strong as businesses upgrade their plant and equipment to maintain competitiveness in the global economy. The CMA is expected to benefit from higher levels of employment and labour incomes. Provincial and federal tax cuts plus higher labour incomes are expected to increase consumer disposable income and positively impact the retail sector.

[2] The Calgary Census Metropolitan Area includes The City of Calgary and adjacent municipalities to the north, east and west. It does not include the Municipal District of Foothills. See map of the Calgary CMA.

Although the Calgary economy is projected to continue growing, it is expected to do so at a slower rate. Slower growth in the U.S. together with an appreciating Canadian dollar should cause the CMA's exports to grow at a slower rate. Relatively high interest rates should keep the cost of borrowing at a high level and reduce business and consumer spending on interest sensitive items.

Population

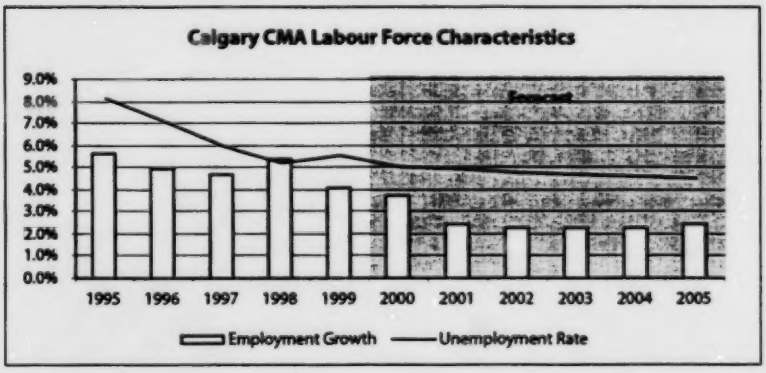
The Calgary CMAs' population is estimated at 944,400 in 2000 and is expected to climb to 1,050,300 by 2005 or by 2.2% annually. While still good, this represents a significant decline from the 4% rate experienced in the 1996-2000 period. Population growth is expected to moderate as the region experiences lower natural increase and net migration rates. An ageing population is expected to generate lower birth and higher mortality rates. In addition, economic recovery in British Colombia and continued economic expansion in the rest of Canada would lessen the influx of inter-provincial migrants to Alberta in search of employment.

CALGARY'S POPULATION IS EXPECTED TO CLIMB BY 2.2% ANNUALLY

Labour Market Supply

The working age population[3] in the Calgary CMA is estimated at 678,300 in 2000 and is expected to climb to 760,500 in 2005. Similar to the general population, the growth rate of the working age population is expected to decelerate over time. This stems from the relatively low fertility rates among the "baby-boomers" in the 1970s and 1980s.

The population projections show that above average growth rates are expected to occur in the above 45 age cohorts. These changing demographics should



[3] Working age population is defined as the population between the ages of 15-64 years. The majority of the labour force is drawn from this cohort. Consequently, the working age population is generally referred to as the labour force source population.

have significant implications for the CMA's economic and social systems. For example, individuals in the 15-24 age groups, the first-time labour market entrants, are estimated at 148,100 in 2000 and should climb to 155,200 in 2005, or by 7,100. Meanwhile, the 55-64 age group, the pre-retirees, is estimated at 67,300 and should increase to 89,100 in 2005, or by 21,800. These projections suggest that it is possible for the number of potential retirees to exceed the number of labour market entrants.

Employment

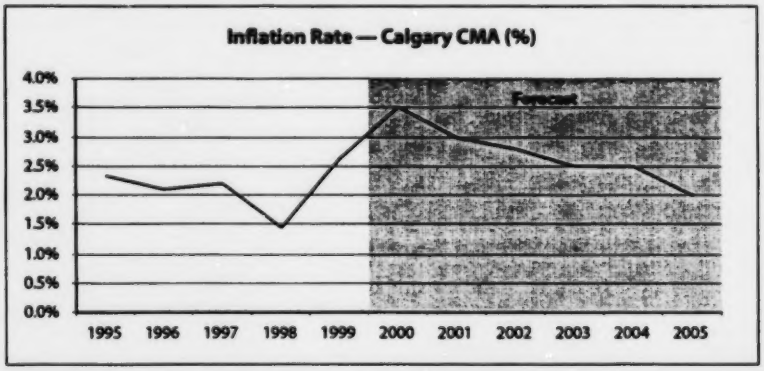
Employment in the Calgary CMA is projected to grow at 3.4% in 2000, led by employment growth in the manufacturing and construction sectors and continued strong growth in the business and social services sectors. Although employment growth is still relatively strong, 3.4% represents the lowest rate of growth in Calgary since 1994.

Employment growth is expected to slow further between 2001 and 2005, averaging 2.4% per year for the period, as slower economic growth and increasing wage pressures limit new job creation. Employment in business services is expected to lead the economy through the period, along with strong growth in retail and wholesale trade, as rising consumer spending stimulates demand in this sector.

The unemployment rate is expected to trend down to 4.5% by 2005 as employment growth is expected to exceed labour force growth.

Inflation

Prices are expected to rise faster in Calgary than in Alberta or Canada. Strong population and employment growth and rising incomes have pushed up demand and combined with higher energy prices (power, heating and gasoline)

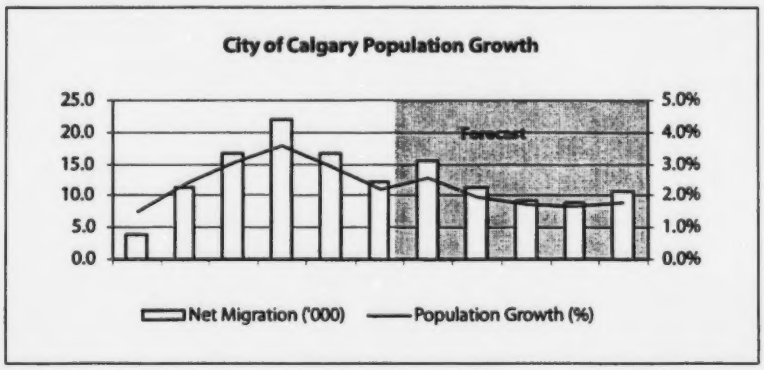


to push up the Consumer Price Index in Calgary, with inflation expected to top 3.5% in 2000. As energy prices soften and population growth levels off, inflation is expected to begin easing up, falling from 3% in 2001 to 2% in 2005.

The City of Calgary

Population and Employment

Employment and population in The City of Calgary is expected to grow at rates slightly below those for the CMA as a whole throughout the forecast period. Higher land costs and higher levels of congestion are expected to continue to push people and jobs into the smaller centres of the region. As well, the number of retirees emigrating from the city and relocating within the CMA, in other regions of the province and outside Alberta is expected to increase over the forecast period. An ageing population is expected to translate into a reduction in the natural increase of the population.



Construction Activity

Construction activity in The City of Calgary is expected to remain strong in 2000. However, in subsequent years, activity is expected to trail off from the heady levels seen in the past five years. The completion of several major construction projects, as well as a weakening in the residential sector as the result of slower population growth are the main contributing factors to this slowdown.

The Office Sector

The collapse of oil prices in late 1998 and early 1999 resulted in a deceleration of economic growth in the City of Calgary. The demand for office space was sharply reduced and several businesses returned space back to the market. The total space absorbed in 1998 and 1999 was therefore negative. Consequently, the vacancy rate increased from 3.8% in 1997 to 5.4% in 1999.

Since then, demand has rebounded as high oil and natural gas prices increased investment. Strong energy prices should keep demand for office space up. However, energy stock prices have been slow to respond to higher energy prices, which has stimulated merger activity in the energy sector. This tends to have a negative impact on the office sector, as new demand does not materialise and in many cases existing stock is returned to the market. Although energy stocks have begun to respond to energy prices, merger activity may still continue. As a result, construction activity in the office sector is expected to slow considerably.

The completion of Bankers Hall West and the Ernst & Young Tower (originally the Millennium Tower) this year added over 1.2 million square feet to downtown office space, while a total of 500,000 square feet is expected to be added in suburban areas. As well, the completion of the TCPL Tower in 2001 is expected to add another million square feet, while another 600,000 is expected in suburban areas. This is expected to push up vacancy rates, as absorption of space lags new supply additions.

While several new projects have been proposed for the downtown area, none are expected to proceed in the forecast period. New supply in the suburban areas is expected to continue at close to the current pace, as increased congestion, higher land values and better communication systems push businesses out of the downtown core.

The Tourist and Accommodation Sector

With the new Telus Convention Centre and the expansion of the Roundup Centre complete, no new tourist and convention facilities are currently planned. The expanded convention and exhibition facilities should increase the appeal of Calgary as a convention and trade-show centre.

The completion of the Hyatt Hotel next to the Convention Centre is expected to be the last major downtown project for a couple of years. While activity in suburban hotels and motels is expected to remain strong and a new large downtown hotel is possible in 2004 or 2005, this is expected to depend on the success of attracting new conventions and trade-shows to Calgary, as well as the continued growth of Calgary as a major business centre.

There has recently been a renewed effort to lobby the provincial government to increase financial support for tourism advertising. Any increase in this support could increase the profile of Calgary as a tourist destination, which could stimulate demand for room nights. Although a stronger Canadian dollar may limit tourism from the U.S., higher growth in Asian economies should increase tourism from these countries.

The current trend since 1997 has been an increasing vacancy rate in the accommodation sector. While this is largely the result of new supply outstripping demand, if this trend does not begin reversing itself, new construction is expected to slow dramatically.

The Retail Sector

With strong employment and population growth and rising incomes, consumer spending is expected to continue to grow significantly. As a result, construction activity in the retail sector is expected to remain firm in 2000 and 2001.

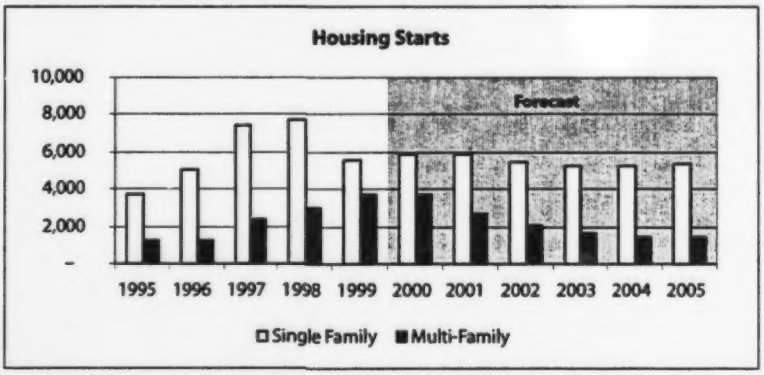
Current absorption of space has remained close to new supply additions, which has kept the vacancy rate low. The low vacancy rate, combined with rising consumer demand, has kept the demand for new space relatively high. More moderate growth over the remainder of the forecast period is expected to trickle into retail construction activity. New supply is expected to be concentrated in the Towne centre format, especially in the emerging communities at the periphery, while the larger regional shopping centres continue to renovate in an attempt to regain some market share.

The Industrial Sector

Demand for industrial space still remains strong. Net absorption has significantly outpaced new supply in 2000, which has pushed down the vacancy rate. As the vacancy rate declines, new supply built on speculation tends to increase. However, of the new supply in 2000 that was built on speculation, a high percentage remains vacant. This is expected to temper somewhat the drive to build in anticipation of demand. Nevertheless, about 3.5 million square feet is expected to be added in 2000. Continued economic growth should keep construction activity in this sector strong, albeit at a more moderate level.

The Residential Sector

Continuing the rate of the last few years, residential construction is expected to continue to be high through 2000. With lower levels of net migration



expected and the possibility of higher interest rates, however, construction activity in the housing sector is expected to slow. Although the momentum of construction in the multi-residential sector should carry through 2001, single-family construction is expected to begin dropping off. Multi-family residential is expected to also slow significantly in 2002 and continue to decline throughout the forecast period as vacancy rates rise.

CONCLUSIONS

Economic growth in most sectors of the Calgary economy is forecasted to slow over the forecast period. However, it is important to note that this represents a moderation from recent high levels and does not represent a negative growth or recessionary period. Rather, it is a return to more "normal" levels of growth. Calgary's businesses that trade with the rest of the world will enjoy an expanding market for their goods and services.

U.S. and Canada

- As consumer and business spending slow in response to increased borrowing costs stemming from higher short-term interest rates growth in the U.S. economy is expected to slow in 2001 and continue trending downwards to its long-term growth potential of 2.5% through the forecast period.

- Growth in the Canadian economy is also expected to slow through the forecast period, in response to higher short-term interest rates, a stronger dollar and a slower growing U.S. economy. Canadian economic growth is nevertheless expected to be marginally higher than U.S. growth between 2002 and 2005.

- Short term interest rates are expected to peak in 2000, as the Bank of Canada increases its bank rate to match higher short-term interest rates in the U.S., to defend the value of the Canadian dollar. As the U.S. economy slows and short-term interest rates are reduced in that country, the Canadian prime rate is expected to drift back down between 2001 and 2005.

- The exchange rate is expected to appreciate between 2001 and 2005, as the U.S./Canada interest differential narrows.

Alberta

- Alberta is expected to lead the country in G.D.P. growth over the next two years.

- Oil and natural gas prices are expected to begin falling, but still remain high enough to support strong economic growth.

- Growth in the Alberta economy is expected to slow down in response to slower growth in North America (i.e. the rest of Canada and the U.S.) but still remain above overall Canadian growth.

- Job growth is expected to match labour force growth to keep the unemployment rate close to the current levels.

- Inflation is expected to trend down through the forecast period.

Calgary

- The Calgary economy is expected to remain the growth centre of the province throughout the forecast period.

- Population growth is expected to moderate. Growth in the CMA as a whole is expected to exceed growth within the city limits.

- Construction activity is expected to slow but remain healthy.

Implications

Through the forecast period, economic change will provide a number of benefits to the public and private sectors, but will also bring a number of challenges.

Government and Public Sector

Over the forecast period, Calgary's government and public sector is expected to benefit from:

- A continued, albeit slower, economic expansion that will increase business and personal income, thereby increasing the income tax base. As well, positive employment growth will contribute to the growing tax base.

- Healthy construction activity that will increase residential and non-residential structures, expanding the property tax base.

In this period, however, the government and public sector must address the following:

- An ageing population that will put pressure on the required social services, especially health services. This will be compounded by strong population growth that will add pressure onto the demand for government services.

- Higher interest rates that will increase debt servicing costs. This will impact primarily the federal government, as the Alberta government has eliminated most of its debt.

- Uncertain energy commodity prices that could negatively impact Alberta's government sector. A significant drop in energy prices would diminish the Alberta government's royalty payments. The provincial government would then be faced with the unpalatable choice of spending cuts, tax increases or a return to deficit financing.

- Continued growth outside the built-up areas that put pressure on governments to put new infrastructure into place.

Business Sector

The private sector is expected to benefit from:

- Strong population growth that increases demand. This is expected to be complemented by rising incomes and personal tax cuts

- A relatively low Canadian dollar and an expanding world economy that keeps export demand high and domestic demand for competing imports low.

- Strong investment in heavy oil.

- Significant business tax cuts.

In this period, the private sector will also face some challenges, including the following:

- Relatively low labour force growth rates that limit the availability of new employees and push up wage costs.

- Declining net migration, largely the result of improving economic conditions outside of Calgary, that keeps population growth below the levels experienced over the past five years.

- Relatively higher short-term borrowing rates that will limit demand for interest-sensitive goods and increase the cost of capital.

- Uncertain resource prices. Higher resource prices will be beneficial for primary producers, but will increase costs to producers using resources as an input. Conversely, lower resource prices, while beneficial to resource consumers, will reduce incomes and investment in the primary sector.

Risks

In order to forecast the key economic indicators for the City of Calgary, a number of simplifying assumptions were made about the evolution of several economic and non-economic factors. The accuracy of the forecast is therefore based on these assumptions holding throughout the forecast period.

The U.S. economy has shown considerable resilience by enduring repeated interest rate hikes. The continued strength of the U.S. economy raises the potential for even larger interest rate hikes and this should significantly increase the risk of a potential recession in the U.S.

The U.S. economy is projected to slowdown, but still grow at a moderate rate. However, past research has indicated the potential for high energy prices to push the U.S. economy into a recession. Given the close integration of the Canadian and U.S. economies, a recession in the U.S. could drastically reduce the demand for Canadian exports and possibly push Canada into a recession. As well, the high oil prices may limit growth in developing economies, which will further diminish export demand. Although the U.S. has recently announced the release of 30 million barrels of oil from its Strategic Petroleum Reserve, this is expected to merely put a short term limit on the oil price ceiling.

IF ENERGY PRICES DROP, EMPLOYMENT & INVESTMENT WOULD BE EXPECTED TO SUFFER ACCORDINGLY

The possibility of high oil prices pushing up the core inflation rate through higher input prices (cost-push inflation) suggests the possibility of higher interest rates in the U.S. This would translate into higher interest rates in Canada, as the Bank of Canada would at least partially match any rate hikes south of the border. The higher interest rates could dampen the expected economic growth in both countries.

The Alberta economy largely faces the opposite risk. If energy prices drop significantly, employment and investment would be expected to suffer accordingly. Despite a great deal of diversification over the past decade, the energy sector still represents a significant part of the economy, leaving Alberta still somewhat vulnerable to the volatile, unpredictable energy prices.

The uncertainty surrounding electricity prices also represents a significant risk. Future prices will depend largely on capacity additions and the cost of natural gas. While the cost of gas is expected to drop over the forecast period, sustained gas prices will push up the cost of electricity. As well, significant

capacity additions would be required in order to bring electricity prices down. However, there is little experience to draw upon in order to evaluate what additions can be expected in a deregulated marketplace. This puts a significant question mark on the validity of any electricity price forecast.

The cost of electricity can have a dual effect. The primary response is to increase consumption costs. While this may in part be offset by more efficient use, a significant increase will translate into high bills. This will eat into disposable income and limit consumer spending.

The second effect is to increase the costs of production. This will decrease profit margins and could translate into higher prices (cost-push inflation). This may discourage investment in Alberta as it erodes the cost-competitiveness of the province. Higher electricity prices can therefore have the same dampening effect on economic activity as other energy prices. Unlike oil and natural gas, however, the province does not draw any royalty revenue from electricity. Therefore, there is no offsetting effect as there is for other energy prices.

Any factors that slow down economic growth, and therefore employment growth, will also decrease expectations for net migration. This will, in turn, lower demand for new commercial and residential construction and further limit economic growth.

Comparisons

The Canadian and Alberta forecasts for 2000 and 2001 are based on a consensus approach, whereby a number of different forecasts are reviewed and the mean of these is adopted. As a result, the forecasts presented in this Outlook will differ from most of these other forecasts. The various forecasts considered are presented in Tables 5 and 6 on Page 27.

The forecasts for economic growth in Alberta for 2000 range from 4.5% to 6.2% and depend largely on assumptions regarding energy prices and the response of the Alberta economy to these prices. Forecasts for 2001 also vary, although the total spread is under 1%.

The forecasts for growth in Calgary are largely dependent on the forecasts for the Alberta economy. As a result, a change in the assumption of Alberta growth will impact the forecast for Calgary. As well, the forecast for growth in Calgary will depend on the assumptions regarding growth in Calgary relative to growth in the province as a whole.

The forecast for economic growth in Calgary presented in this report assumes that Calgary will continue to be the growth centre of the province. Other

forecasts, notably The Conference Board of Canada, present a lower forecast for Calgary but a higher forecast for Alberta. This is largely based on an assumption of higher employment growth in Edmonton than in Calgary. Year to date employment data through August, however, points to higher employment growth in Calgary for 2000.

Table 1 — Selected Economic Indicators

Indicator	Actual					Forecast					
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canadian & U.S.											
US Real GDP (1992) (%)	2.7	3.6	4.2	4.3	5.2	3.2	2.7	2.5	2.5	2.5	2.5
Canadian GDP (1992) at Factor Cost (%)	2.7	1.5	4.1	2.9	4.5	4.5	3.0	3.0	2.8	2.8	2.8
Prime Business Loan Rate (%)	8.6	6.1	5.0	6.6	6.4	7.5	7.4	7.3	7.0	6.8	6.5
Exchange Rate (U.S.&CAN$)	0.73	0.73	0.72	0.67	0.67	0.67	0.68	0.69	0.70	0.71	0.72
Alberta											
Total Employment Growth Alberta (%)	2.9	2.9	3.5	3.9	2.5	2.9	2.9	2.2	2.1	2.0	2.0
GDP Alberta (%)	2.4	2.7	7.9	2.2	2.8	5.3	3.9	3.3	2.8	3.2	3.2
Unemployment Rate Alberta (%)	7.9	6.9	5.8	5.6	5.7	5.0	4.9	4.8	4.9	4.8	4.8
Inflation Rate Alberta (%)	2.3	2.2	2.1	1.1	2.5	3.0	2.8	2.5	2.0	1.7	1.7
Oil Price (WTI - US$/Barrel)	$18.43	$22.15	$20.60	$14.39	$19.25	$28.00	$25.00	$22.00	$20.00	$20.00	$20.00
Natural Gas Price (AECO/NIT - Cdn$/GJ)	$1.09	$1.32	$1.75	$1.92	$2.80	$4.50	$4.25	$4.00	$3.00	$2.75	$2.75
Calgary CMA Indicators											
Total Population Calgary CMA ('000)		820.6	852.3	889.2	921.6	944.4	970.8	992.2	1011	1029.6	1050.3
Total Population Growth Calgary CMA (%)			3.9	4.3	3.6	2.5	2.8	2.2	1.9	1.8	2.0
Total Employment Calgary CMA ('000)	431.2	452.4	473.5	499.1	519.3	538.8	551.9	564.2	577.0	590.2	604.3
Total Employment Growth Calgary CMA (%)	5.6	4.9	4.7	5.4	4.0	3.8	2.4	2.2	2.3	2.3	2.4
GDP Calgary CMA (%)	5.2	4.7	8.0	2.4	2.2	5.8	3.1	3.3	3.0	3.2	3.2
Unemployment Rate Calgary CMA (%)	8.1	7.1	6.0	5.2	5.5	5.0	4.9	4.8	4.7	4.6	4.5
Inflation Rate Calgary CMA (%)	2.3	2.1	2.2	1.5	2.6	3.5	3.0	2.8	2.5	2.5	2.0

Source: Statistics Canada for data from 1995-1999. Forcast by Corporate Strategy and Economics, The Conference Board of Canada.

Table 2 — City of Calgary Indicators

Economic Indicators	Actual					Forecast					
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Population Calgary City ('000)	749.1	767.1	790.3	818.7	842.4	860.8	882.7	900.2	915.5	930.6	947.3
Total Population Growth Calgary City (%)	1.5	2.4	3.0	3.6	2.9	2.2	2.5	2.0	1.7	1.6	1.8
Net Migration ('000)	3.9	11.3	16.7	21.9	16.7	12.1	15.6	11.2	9.1	9.0	10.8
Total Employment Calgary City ('000)	396.7	410.1	432.1	457.5	465.8	480.0	490.9	501.1	511.6	522.5	534.1
Total Population Growth Calgary City (%)	2.1	3.4	5.3	5.9	1.8	3.1	2.3	2.1	2.1	2.1	2.2
Construction Activity											
Office Sector ('000 ft²)			125	490	402	1,740	1,600	700	600	600	500
Core				105		1,240	1,000				
Suburban			125	385	402	500	600	700	600	600	500
Hotel & Motel (Rooms)			300	255	580	690	400	250	100	550	200
Core Hotels					325	350				350	
Suburban Hotels			200	155	155	240	300	150	100	100	100
Motels			100	100	100	100	100	100		100	100
Retail Sector ('000 ft²)			900	1,450	1,450	1,700	1,050	800	700	600	500
Centres			700	1,200	1,200	1,400	800	600	500	400	
Strip			200	250	250	300	250	200	200	200	500
Industrial Warehouse ('000 ft²)			2,500	2,800	3,000	3,500	2,500	2,500	2,000	2,000	1,500
Residential (Units)	4,938	6,227	9,766	10,745	9,230	9,650	8,600	7,600	7,000	6,700	6,800
Apartments	531	515	1,113	1,874	2,288	2,400	1,500	1,100	1,000	800	800
Townhouses	524	417	873	714	946	1,000	900	750	450	400	400
Duplexes	202	264	402	418	472	350	300	250	250	200	200
Single Family	3,681	5,031	7,378	7,739	5,524	5,900	5,900	5,500	5,300	5,300	5,400

Source: Statistics Canada, Civic Census for data from 1995-1999. Forecast by Corporate Strategy and Economics.

Table 3 — City of Calgary Population by 5-Year Cohort

	Actual					Forecast				
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Male										
0-4	26,483	26,528	26,626	26,336	26,604	26,936	27,310	27,646	27,984	28,272
5-9	28,324	28,402	28,623	29,986	29,954	30,078	30,126	30,184	30,301	30,508
10-14	27,097	27,655	28,213	28,687	28,922	29,202	29,369	29,474	29,569	29,703
15-19	24,738	25,863	27,089	28,416	29,016	29,706	30,140	30,439	30,697	30,996
20-24	28,635	29,780	31,547	32,805	33,300	34,270	34,682	34,863	35,063	35,488
25-29	33,047	34,305	36,220	35,684	36,255	37,404	37,954	38,212	38,450	38,919
30-34	37,874	37,708	38,064	40,896	41,207	41,899	42,465	42,926	43,344	43,817
35-39	40,712	40,594	40,618	43,960	43,840	43,970	44,083	44,227	44,432	44,734
40-44	35,205	36,530	37,647	38,014	38,565	39,074	39,435	39,712	39,960	40,231
45-49	28,244	30,450	32,760	34,040	35,390	36,687	37,590	38,272	38,867	39,486
50-54	19,217	21,180	23,246	23,159	25,057	26,815	28,389	29,771	30,985	32,074
55-59	13,129	14,326	15,691	15,078	16,617	18,014	19,440	20,867	22,267	23,623
60-64	11,611	11,794	12,191	13,335	14,063	14,851	15,733	16,699	17,738	18,832
65-69	10,777	10,789	10,866	12,303	12,477	12,779	13,148	13,599	14,142	14,783
70-74	7,846	8,192	8,468	8,957	9,134	9,318	9,510	9,727	9,982	10,290
75-79	5,183	5,476	5,773	5,917	6,153	6,373	6,566	6,746	6,923	7,111
80-84	2,861	3,088	3,316	3,266	3,464	3,658	3,833	3,992	4,141	4,285
85+	1,629	1,910	2,190	1,859	2,103	2,347	2,574	2,787	2,990	3,187
Total	382,612	394,569	409,146	422,699	432,122	443,381	452,346	460,161	467,835	476,339
Female										
0-4	25,486	25,562	25,684	25,576	25,852	26,187	26,560	26,913	27,228	27,512
5-9	27,280	27,346	27,555	28,946	28,927	29,056	29,116	29,187	29,314	29,525
10-14	25,800	26,387	26,959	27,376	27,630	27,921	28,104	28,227	28,338	28,485
15-19	23,569	24,631	25,798	26,749	27,343	28,020	28,459	28,771	29,043	29,352
20-24	27,953	28,852	30,359	31,156	31,552	32,406	32,763	32,920	33,105	33,503
25-29	32,261	33,286	34,876	34,563	35,000	35,952	36,394	36,591	36,775	37,167
30-34	37,775	37,434	37,588	40,470	40,592	41,073	41,448	41,742	42,015	42,356
35-39	39,672	39,728	39,842	42,502	42,389	42,474	42,520	42,576	42,679	42,866
40-44	34,087	35,470	36,677	36,519	37,141	37,711	38,105	38,393	38,634	38,880
45-49	26,799	28,823	30,911	31,990	33,372	34,659	35,638	36,420	37,098	37,753
50-54	18,553	20,350	22,245	22,147	23,906	25,543	27,029	28,361	29,556	30,646
55-59	13,682	14,687	15,876	15,198	16,562	17,801	19,078	20,371	21,660	22,932
60-64	12,357	12,626	13,074	13,726	14,396	15,114	15,898	16,756	17,688	18,689
65-69	12,052	12,169	12,382	13,159	13,366	13,712	14,075	14,492	14,992	15,594
70-74	10,271	10,497	10,719	11,214	11,379	11,579	11,784	12,008	12,266	12,575
75-79	7,418	7,796	8,151	8,099	8,345	8,584	8,791	8,982	9,172	9,377
80-84	5,207	5,391	5,619	5,685	5,894	6,113	6,308	6,488	6,658	6,829
85+	4,225	4,737	5,233	4,613	5,027	5,444	5,829	6,191	6,538	6,877
Total	384,447	395,771	409,549	419,689	428,672	439,351	447,901	455,389	462,759	470,917
Grand Total	767,059	790,340	818,695	842,388	860,794	882,733	900,247	915,550	930,594	947,256
Growth Rate		3.0%	3.6%	2.9%	2.2%	2.5%	2.0%	1.7%	1.6%	1.8%

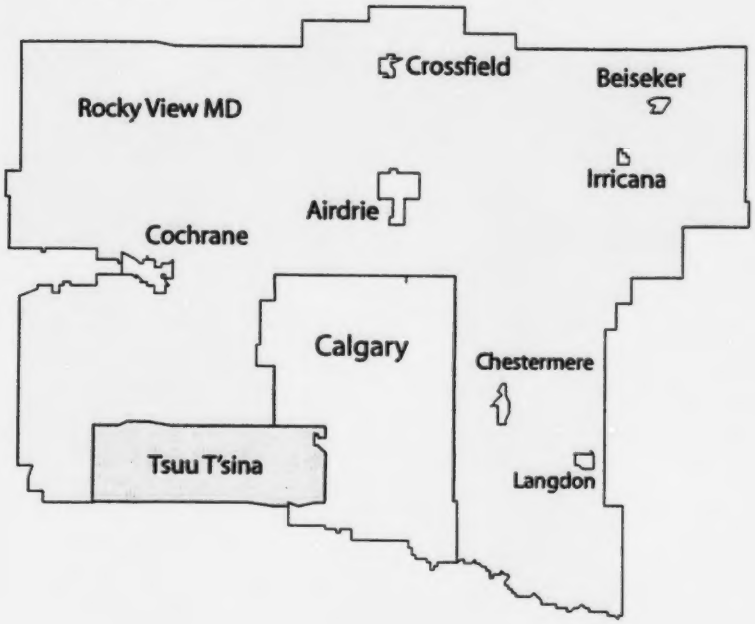
Source: Corporate Strategy & Economics. October 2000.

Table 4 — Calgary CMA Population by 5-Year Cohort

	Actual					Forecast				
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Male										
0-4	28,493	28,429	28,539	28,346	28,788	29,383	29,863	30,396	30,879	31,318
5-9	30,949	31,122	31,389	32,799	32,702	32,803	32,851	32,934	33,107	33,402
10-14	29,832	30,520	31,200	31,781	32,026	32,297	32,439	32,516	32,593	32,732
15-19	26,998	28,539	30,124	31,762	32,451	33,207	33,662	33,956	34,205	34,509
20-24	29,975	32,237	34,980	37,090	37,804	38,945	39,423	39,612	39,818	40,293
25-29	34,237	36,571	39,570	40,094	41,097	42,611	43,392	43,794	44,149	44,764
30-34	39,854	39,932	40,698	44,074	44,806	45,912	46,845	47,624	48,325	49,069
35-39	43,437	43,408	43,551	47,070	47,066	47,367	47,678	48,040	48,484	49,046
40-44	38,080	39,503	40,717	41,186	41,777	42,339	42,763	43,123	43,483	43,896
45-49	30,594	33,324	36,070	37,718	39,142	40,524	41,468	42,175	42,808	43,502
50-54	20,822	23,042	25,418	25,664	27,834	29,853	31,647	33,212	34,583	35,817
55-59	14,209	15,544	17,070	16,648	18,379	20,026	21,709	23,392	25,045	26,650
60-64	12,446	12,689	13,160	14,395	15,222	16,146	17,185	18,329	19,561	20,862
65-69	11,432	11,513	11,655	13,158	13,376	13,731	14,164	14,695	15,336	16,093
70-74	8,216	8,624	8,963	9,512	9,740	9,971	10,209	10,472	10,780	11,149
75-79	5,448	5,764	6,091	6,270	6,537	6,789	7,016	7,229	7,441	7,666
80-84	2,996	3,252	3,505	3,480	3,696	3,909	4,104	4,284	4,454	4,621
85+	1,719	2,019	2,321	2,011	2,269	2,526	2,765	2,991	3,209	3,420
Total	409,737	426,032	445,020	463,059	474,712	488,258	499,182	508,774	518,260	528,808
Female										
0-4	27,461	27,427	27,550	27,534	27,978	28,489	29,041	29,566	30,040	30,470
5-9	29,695	29,879	30,160	31,609	31,539	31,657	31,724	31,826	32,012	32,313
10-14	28,410	29,100	29,777	30,293	30,558	30,845	31,009	31,111	31,212	31,370
15-19	25,529	27,021	28,551	29,815	30,510	31,264	31,736	32,055	32,329	32,652
20-24	29,098	31,019	33,429	35,021	35,634	36,662	37,097	37,278	37,484	37,941
25-29	33,621	35,515	38,005	38,590	39,395	40,663	41,312	41,641	41,937	42,468
30-34	40,065	39,910	40,387	43,707	44,150	44,953	45,614	46,160	46,660	47,223
35-39	42,687	42,817	43,027	45,829	45,792	45,998	46,184	46,399	46,678	47,063
40-44	36,827	38,407	39,785	39,784	40,478	41,118	41,579	41,941	42,273	42,634
45-49	29,004	31,427	33,873	35,273	36,775	38,192	39,264	40,119	40,872	41,620
50-54	19,903	21,971	24,162	24,371	26,381	28,270	29,979	31,508	32,883	34,141
55-59	14,612	15,749	17,097	16,605	18,150	19,624	21,144	22,684	24,221	25,742
60-64	13,082	13,439	13,984	14,744	15,508	16,360	17,293	18,318	19,435	20,638
65-69	12,592	12,841	13,176	14,070	14,333	14,741	15,170	15,664	16,257	16,976
70-74	10,716	10,991	11,278	11,848	12,074	12,333	12,594	12,872	13,188	13,563
75-79	7,713	8,145	8,551	8,553	8,837	9,118	9,365	9,597	9,830	10,081
80-84	5,452	5,661	5,920	6,018	6,248	6,490	6,708	6,912	7,109	7,309
85+	4,420	4,973	5,508	4,924	5,357	5,791	6,192	6,570	6,934	7,294
Total	410,887	426,291	444,221	458,588	469,698	482,568	493,006	502,220	511,353	521,498
Grand Total	820,624	852,324	889,241	921,647	944,409	970,826	992,188	1,010,995	1,029,613	1,050,307
Growth Rate		3.9%	4.3%	3.6%	2.5%	2.8%	2.2%	1.9%	1.8%	2.0%

Source: Corporate Strategy & Economics. October 2000.

Calgary CMA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